RESEARCH HIGHLIGHT

June 2004

Socio-economic Series 04-032

AN INTERNATIONAL COMPARISON OF HOUSING NEED INDICATORS IN AUSTRALIA, CANADA, ENGLAND AND THE UNITED STATES

INTRODUCTION

The objective of this research study was to identify and analyze the housing indicators related to need and conditions used for planning and policy purposes by national governments in Australia, England and the United States.

A parallel objective was to compare the methods and use of such indicators in these three countries with the core housing need methodology, the primary approach used in Canada.

This updates earlier research described in Research Highlight Issue 7, (1992).

FINDINGS

The three federations—Australia, Canada and the United States—have a similar pre-occupation with the issue of affordability, and this tends to be reflected in the primary housing need indicators used in these countries.

Canada is unique among the three federated nations in having a more integrated need assessment—the core housing need model integrates three separate housing conditions: affordability, suitability (crowding) and adequacy (physical condition), rather than focusing on affordability alone. It also employs an income threshold to focus on lower-moderate income households.

England stands out from the other three countries in the absence of a single mainstream indicator. Instead, there are a number of measures that are used to describe housing conditions, as well as broader measures of social exclusion and social deprivation, which include housing among a comprehensive set of measures. The key focus of measurement approaches in the UK relate to administrative requirements and managing funding of existing capital investment programs.

While national surveys collect on data on housing condition (state of repair), and Canada and the US retain this element in their mainstream indicators, this is not generally seen as a critical issue outside of England. In England a specific survey monitors dwelling condition. Similarly, the problem of overcrowding is monitored but is not pervasive (and is not part of the mainstream indictors in Australia or the US).

Australia is developing a series of performance measures under the Commonwealth State Housing Agreement, but these relate to efficiency in operation and management of social housing as distinct from broader-based housing need and condition indicators.

In addition to official government measures, all four countries have indicators driven largely by private sector interests — the banks and builders. These focus on the issue of homeownership affordability, or more correctly, financial accessibility. Generally these are maintained by industry associations or banks and updated on a regular quarterly basis – a much quicker cycle than the other government-based indicators. Canada is the only country that previously had an official ownership affordability indicator, but this was discontinued in 1998.

CMHC SCHL

HOME TO CANADIANS

Canada

63592

SUMMARY OF INDICATORS IN USE

The primary housing need indicators are outlined in the following table. This table also identifies the frequency with which the indicator is updated, which highlights the critical issue of data availability and dependency. Each indicator is further described below.

Overall, there is a strong focus on affordability issues—both for renters and in relation to access to homeownership.

DESCRIPTION OF INDICATORS IN USE

Australia—Housing Affordability (Stress): Income units (households) are said to be in housing stress if they pay more than 30% of gross income on housing and are in the lower 40% of the income distribution (includes both renters and owners).

US—Worst Case Housing Need: Assesses the number of very low income renter households (income less than 50% of area family median) that pay more than 50% of gross income for rent, including utilities and/or occupy severely inadequate housing.

Critical Housing Need: Very low income families paying more than 50% of gross income for rent, including utilities and/or living in severely inadequate housing with earnings up to 120% of local area median income. Includes owners, renters, and assisted households.

Housing Wage: determines the income needed to afford the HUD Fair Market Rent (FMR) for a two-bedroom apartment at 30% of household income (FMR based on 40th percentile rent).

England—Social Exclusion Indicators: a set of 50 key indicators relating the characteristics of social exclusion, five relate to housing:

- Households without household insurance;
- Homes without central heating;
- Overcrowding;
- Households in mortgage arrears;
- Households in temporary accommodations.

General Need Index and Housing Need Index: The GNI and HNI are compound statistical indices, generated from a large array of survey and administrative data.

Summary of Indicators in Use

Indicator	Condition Measured	Frequency
Canada		
Core Housing Need	Affordability, Dwelling Condition; Crowding	5 years—based on census (annually prior to 1997 based on HIFE)
RBC Homeownership Affordability Indicator	Homeownership Financial Accessibility	Quarterly
Australia		
Affordability Index (Housing Stress)	Affordability, Dwelling Condition; Crowding	5 years, from Housing Expenditure Survey
Ownership Affordability Index	Homeownership Financial Accessibility	Annual
CBA/HIA Homeownership Affordability Index	Homeownership Financial Accessibility	Quarterly
England		
Generalized Needs Index (GNI), and Housing Need Index (HNI),	Comprehensive assessment (array of measures)	Annual revisions, but not all indicators updated each year
Social Exclusion Indicators	Comprehensive assessment (array of measures)	Annual
CML- Ownership Affordability	Homeownership Financial Accessibility	Quarterly
US		
Worst Case Housing Need	Affordability, Unassisted Renters Only	Biennial for national data, 6 year cycle for metropolitan
Critical Housing Need	Affordability, Renters and Owners	Biennial
Housing Wage	Affordability, Renters Only	Annual
Homeownership Rate	Ownership Rate, All and Minority	Biennial

Canada—Core Housing Need: The core need measure is designed using a two-step process.

The first step determines if a household lives in housing that fails to meet one or more of three defined housing standards:

- An adequate dwelling does not, in the assessment of the occupants, require major repairs.
- An affordable dwelling costs less than 30% of pre-tax household income.
- A suitable dwelling has enough bedrooms for the size and composition of the occupying household as determined by the National Occupancy Standard (NOS).

According to the NOS, enough bedrooms means one bedroom for each cohabitating adult couple; unattached household member 18 years of age and over; same-sex pair of children under the age of 18; and additional boy or girl in the family, unless there are two opposite sex siblings under 5 years of age, in which case they are expected to share a bedroom. A household of one individual can occupy a bachelor unit (a unit with no bedroom).

The second step then assesses whether a household falling below one of these standards has the necessary income capacity to address this issue. An income threshold is derived by market (city-wide) for each household size/bedroom type, based on the median rent of alternative market housing that meets all three standards.

PERCEIVED STRENGTHS AND WEAKNESSES

A housing research expert in each of the countries examined was asked to provide commentary on the strengths and weaknesses of the respective indicators.

STRENGTHS:

The strength of the Australian housing stress measure is the relative simplicity of this indicator, and thus ability to derive estimates from various ongoing survey instruments.

The key strength in England is the wide availability of reliable government survey and administrative-based data sources that can be readily used to construct national, regional, and local measures.

In the US, data come from official U.S. government sources, and are consistently reported on a regular basis. The American Housing Survey is conducted every two years.

The strength of the Canadian core housing need measure is the integration of three separate housing standards together with derived local income thresholds that reflects market cost differences.

WEAKNESSES:

A number of technical flaws and degrees of imprecision are evident in current indicators. For example:

- The use of gross income as the denominator and gross rent as the numerator have both been found wanting.
- The use of a standard norm (such as 30%) applied across all households, regardless of size or composition.

Reliance on gross income data tends to overlook how well various non-housing benefits, especially tax credits, get factored into the assessment of income and thus into measures of affordability. It is argued that an after-tax disposable income measure would provide a more realistic assessment of capacity to pay.

A further set of concerns was directed at the statistical sources and data collection methods used (e.g. self reported income and related issues of under reporting, mismatched dates for income and rent data and seasonal variance in utility costs).

IMPETUS FOR INDICATOR DEVELOPMENT

In all countries, the existing indicators were originally created to support the planning and administration of housing assistance programs.

In Canada, the indicators were developed to assist in the objective allocation of federal budget funds.

The UK has developed a very complex set of indicators—the GNI and HNI for the similar purpose of assisting government in making capital allocations.

In the US, the worst case need measure was originally designed to estimate eligibility for HUD public housing programs.

In Australia there is a strong focus on expanding measures related to assessing program outcomes (as distinct from need) under a set of performance indicators developed as part of the Commonwealth State Housing Agreement (CHSA).

In all countries, funding levels for new housing assistance have declined since the 1980s. Without the need to allocate funds or manage new programs, the initial rationale for the indicator is weakened. At the same time, almost universal budgetary restraint has impacted national statistical agencies, so maintenance of necessary data sources has in some cases been undermined.

In addition to use in program planning and administration, housing need indicators have become widely used by non-governmental and advocacy organizations as a way to identify and track housing need and to argue for renewed or expanded government investment in housing and/or program reforms.

AVAILABILITY OF REGULAR DATA IS CRITICAL

The capacity to establish, and more importantly to maintain, indicators on a consistent and regular basis depends heavily on available data sources.

England and US have the richest and most regular data sources, with annual or biennial surveys related specifically to housing. The publication of such data on a regular and timely basis has spawned the creation of additional indicators by advocacy and non-governmental organizations and has enhanced the capacity of analysts and advocates to profile the need for funding support.

Canada and Australia have been more constrained by a dependence on census data—taken on 5 year cycles. The census sources provide a rich database and very extensive geographic coverage, but their utility is time limited. Typically, data are not available for 2-3 years following the census and over the census cycle data becomes increasingly stale (8-9 years old by the end of the release cycle. At the time of this report (Spring 2004), new core housing need estimates based on the 2001 census —which reflect 2000 incomes—had still not been released, and inevitably will already be somewhat out of date relative to current housing need and conditions (albeit the only indicators available).

DEVELOPING REALISTIC EXPECTATIONS FOR INDICATORS

In compiling commentaries on the strengths and weaknesses of the indicators used in the four countries, the list of weaknesses far outweighed the strengths. All the commentaries highlighted a litany of technical flaws and degrees of imprecision in current indicators. This is an inevitable consequence of putting such a task before experienced researchers, all of whom have an inherent bias toward improving level of detail and accuracy.

Reflecting on this outcome highlights the importance of creating realistic expectations about indicators. Fundamentally, indicators are just that—they provide a gauge or warning light. There is an evident tension between fully comprehensive versus detailed measures and a more general assessment, or indication.

Realistically, an indicator should err toward the latter. That is not to say it should not be well founded and based on good data. However, in the trade off between detail and timeliness, the focus of indicators should be on a timely and regular release of information. This can then alert policy makers and analysts to certain trends and issues and stimulate the more detailed research necessary to fully understand the causes and potential remedies of the identified issue.

POTENTIAL OPPORTUNITIES FOR CANADA

In reviewing the assessment, international commentators highlight three areas of potential indicator development for Canada:

- Given the widespread interest in ownership affordability as a feature of government policy, there may be merit in exploring the feasibility of developing such an indicator, taking into account the definitional and methodological issues involved in designing indicators on homeowner affordability and accessibility.
- Current indicators in Australia, Canada, and the US focus on the demand measure of affordability. Research has suggested that the lack of, and more significant, ongoing erosion of the lower rent stock represents a housing concern. Some form of supply indicator focusing particularly on availability of low rent stock would be useful to inform the policy process.
- The US concept of a minimum housing wage, which explicitly links housing issues to labour markets, is also a possible area of interest to examine further.

If Canada wishes to effectively monitor housing need and conditions, some priority must be given to creating a regular (at least biennial) national survey specifically focused on collecting housing related appropriate data. Alternatively enhancement to the sample size of the existing Survey of Household Spending would similarly achieve this objective.

Researchers: Steve Pomeroy, in association with Tony Dalton (Aus), Steve Wilcox (Eng) and Michael Stegman (US).

The detailed final report on this research is available from the Canadian Housing Information Centre at the address below.

Housing Research at CMHC

Under Part IX of the *National Housing Act*, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research.

This fact sheet is one of a series intended to inform you of the nature and scope of CMHC's research.

To find more *Research Highlights* plus a wide variety of information products, visit our Web site at

www.cmhc.ca

or contact:

Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario
K1A 0P7

Phone: 1 800 668-2642
Fax: 1 800 245-9274

OUR WEB SITE ADDRESS: www.cmhc.ca

Although this information product reflects housing experts' current knowledge, it is provided for general information purposes only. Any reliance or action taken based on the information, materials and techniques described are the responsibility of the user. Readers are advised to consult appropriate professional resources to determine what is safe and suitable in their particular case. CMHC assumes no responsibility for any consequence arising from use of the information, materials and techniques described.